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TWO YEARS OF THE MANCHOUKUO REGIME

by

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with the aid of the Research Staff of the Foreign Policy Association

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DEVELOPMENTS of a far-reaching nature have taken place in Manchuria since the League of Nations published the Lytton Report on October 1, 1932.¹ Manchoukuo, or the state of Manchuria, has undergone many radical alterations in its political and economic structure.² Its administrative subdivisions have been augmented and reorganized. "Chief Executive" Henry Pu Yi has become Emperor Kangtê, and the outside world has extended his realm some measure of recognition. Manchoukuo has made considerable strides in reorganizing its finances, currencies, transportation system, communications and industries. Moreover, it has projected—with substantial Japanese direction and assistance—an extensive program of economic development. It has also made some progress in restoring "peace and order" within its boundaries.

These developments have raised many questions. To what extent and in what manner is Japan shaping Manchoukuo's economic and political structure? How are the funds being provided? Will Manchoukuo continue to be an economic drain on Japan? How have the inhabitants of Manchoukuo been affected by the establishment of the new state? Are Chinese settlers again being attracted to Manchuria from China proper? Are the Koreans and Japanese now settling Manchuria in larger numbers than before? How rapidly, and in what manner are the issues involving Japan, China, Soviet Russia and the rest of the world being liquidated?

The primary purpose of this report is to indicate the nature and possible significance of the developments which have taken place in Manchuria during the past two years or more, and to answer, where possible, the questions which certain of these developments have raised.

POLITICAL DEVELOPMENT

Manchoukuo came into existence officially on March 1, 1932, nearly six months after

the occupation of Mukden by Japanese troops. During this period, the Japanese had extended their control over most of Manchuria, completely disrupted the Chinese governmental machinery (except in Jehol), and seized banks, railroads and other properties of the former provincial governments and officials. Manchoukuo's proclamation of establishment declared: "... by the will of the thirty million people, we hereby declare on this day that we sever our relations with the Republic of China and establish the State of Manchuria..."³

The second important stage in its political career was marked by the signing of the so-called Manchoukuo-Japan Protocol on September 15, 1932 in which Japan extended *de jure* recognition to the newly organized state. Important excerpts from the official translation of the Protocol are as follows:⁴

"Whereas Japan has recognised the fact that Manchoukuo, in accordance with the free will of its inhabitants, has organized and established itself as an independent State . . . :

"Now the Governments of Manchoukuo and Japan have . . . agreed as follows:

"1. Manchoukuo shall confirm and respect . . . all rights and interests possessed by Japan or her subjects within the territory of Manchoukuo by virtue of Sino-Japanese treaties, agreements or other arrangements . . . ;

"2. Manchoukuo and Japan . . . agree to co-operate in the maintenance of their national security; it being understood that such Japanese forces as may be necessary for this purpose shall be stationed in Manchoukuo . . .

"The present Protocol has been drawn up in Chinese and Japanese . . . Should any difference arise in regard to interpretation . . . the Japanese text shall prevail."

The third stage in Manchoukuo's political development came with the establishment of the monarchy. On March 1, 1934 (the First Year of Kangtê) Emperor Kangtê, in his enthronement rescript, announced that "we"

3. Publications of the Department of Foreign Affairs, Manchoukuo Government, Hsinking, Manchuria, Series No. 1, October 1932, p. 5. Cf. *Lytton Report*, p. 88 et seq.

4. Manchoukuo Publications, cited, p. 16. The territory which Japan recognizes as Manchoukuo, it should be pointed out, is somewhat more extensive than that which Westerners formerly regarded as Manchuria. Manchoukuo today consists of the "Four Northeastern Provinces" (prior to 1928 officially known as the "Three Eastern Provinces" and Jehol), and the area between the Great Wall and the former southern boundary of Jehol, indicated on map. Manchoukuo therefore includes territory which was formerly a part of Hopei Province.

1. League of Nations, *Appeal by the Chinese Government: Report of the Commission of Enquiry*, VII. Political (Geneva, 1932).

2. It is improper to refer to the "State of Manchoukuo," since Manchoukuo means "State of Manchuria (or Manchou)." The spelling M-a-n-c-h-u-k-u-o, incidentally, is regarded as incorrect by Manchoukuo's Foreign Office.

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had ascended to the throne in conformity with the wishes of the people and in "complying with the will of Heaven." The Emperor also paid tribute to "the Empire of Japan, [which] in the name of righteousness and justice and in spite of suspicions cast and attacks made . . . gave assistance in the task of establishing our State."

It remains to be ascertained what the full consequences of the monarchical status for Manchoukuo will be. By no means does it insure that Manchoukuo has actually become an "independent" state, or that Japan has no intention, or may not later entertain one, of ultimately annexing the territory. Among the reasons which may have prompted the Manchoukuo authorities and the Japanese to establish the monarchy are the following:

(1) An Emperor is much more comprehensible to the inhabitants of Manchoukuo than a Chief Executive, and south of the Wall some of the older and more conservative Chinese now look upon Pu Yi as the restored Manchu Emperor. This conception should serve to reduce any opposition which Manchoukuo might meet if, at some propitious time in the future, it should decide to extend its boundary southward.

(2) The new monarchical status of Pu Yi gives the Mongol princes, in accordance with historic precedent, the opportunity to establish a unified Mongol régime with a large measure of autonomy. This, in turn, may give Manchoukuo an opportunity to extend its boundary westward. To meet this threat, however, the Nanking government has already made important concessions to the Mongols in Chinese Inner Mongolia.⁶

Manchoukuo's New Constitution

On establishing the monarchy on March 1, 1934, Manchoukuo adopted a constitution which effected many important alterations in the state's organization.⁷ No specific provision, however, was made for removing any Japanese officials or advisers from the numerous important positions they held in both the local and central governments. According to a responsible Japanese official, there were over 1,400 Japanese officials, including two members of the Emperor's Privy Council, in the state's employ early in 1934.⁸

The new constitution provides for an "Emperor," nominally with extensive powers. The Emperor is invested with "legislative powers with the approval of the Legislative Council" and is empowered to "determine the organization of the different branches of

the administration and appoint and dismiss government officials." He is authorized to declare war, make peace and conclude treaties; and he is given supreme command of the military, naval and air forces. The Emperor has a Privy Council composed of five members, who, when requested, submit opinions to him on various matters of state. "The succession to the Imperial Throne shall be as determined separately."

A Legislative Council is provided for, but its organization "shall be as determined separately by law All legislative and budgetary bills . . . shall require the approval of the Legislative Council [which] . . . shall be convoked annually by the Emperor The proceedings of the Legislative Council shall be decided by a majority vote" and deliberations will be held in public. "All legislative and budgetary bills [with certain exceptions] . . . shall be sanctioned, promulgated, and put into force by the Emperor."

A State Council is to take charge of all administrative affairs. This Council is composed of the Departments of (1) Civil Affairs, (2) Foreign Affairs, (3) Defense, (4) Finance, (5) Industry, (6) Communications, (7) Justice and (8) Education. The State Council is to have a Prime Minister and each department a Minister.

The provinces, with the exception noted below, are under the jurisdiction and control of the Minister of Civil Affairs. The provincial governors are appointed by the central government and are given only limited powers, not including the right to command troops. The provincial governments "have no powers to control finances."⁹ The provinces are divided into districts or *hsien*, each of which is governed by a Magistrate. The districts, it is claimed, are allowed a considerable measure of autonomy. Each district is composed of a number of villages or *tsun*. Hsingan province, chiefly a Mongol area, is an exception. It is subdivided into four sections, each of which is under the jurisdiction of a sub-governor who is responsible to the Governor General in Hailar. The "banner" or *chi*, instead of the district, is the unit of autonomy in this province. Hsingan probably enjoys a greater measure of local autonomy than any other province.¹⁰

PUBLIC FINANCE

A critical examination of Manchoukuo's public finances is difficult if not impossible in the absence of any adequate check on official sources of information. According to official claims, Manchoukuo's general budget for the first fiscal year (July 1932 to June 1933) was fully balanced. Actual receipts amounted to M¥137,814,000, which was M¥24,506,000 over the anticipated receipts—

5. *Manchoukuo Information Bulletin* (Department of Foreign Affairs, Manchoukuo Government), No. 1, March 1, 1934. (Hereinafter cited as *M.I.B.*)

With the establishment of the monarchy, Manchoukuo was renamed "Manchoutukuo," which means Manchou Empire. The term "Manchoukuo," however, still has official sanction in English usage. *M.I.B.*, No. 7, March 1, 1934.

6. For a thorough analysis of the position which Mongols occupy in relation to Manchoukuo, cf. Owen Lattimore, *The Mongols of Manchuria* (New York, John Day, 1934). For a brief statement, cf. T. A. Bisson, "The Dismemberment of China," *Foreign Policy Reports*, April 25, 1934, p. 46-47. Cf. also "Mongolians Strive to Attain Real Independence," *China Weekly Review*, November 25, 1933.

7. *M.I.B.*, No. 7, March 1, 1934.

8. Major Tamio Iwasaki (Imperial Japanese Army), "The Present Status of Manchoukuo and Its Future," *Dai Nippon* (The Bunmei Kyokwai, Tokyo, 1934), p. 43.

9. *Ibid.*

10. Cf. Owen Lattimore, "Mongolia Enters World Affairs," *Pacific Affairs*, March 1934, p. 19-20.

M¥113,308,000.¹¹ A "Supplementary Budget" of M¥24,649,000, to provide for "North Manchuria flood relief work and peace preservation activities, . . . the establishment and maintenance of [an] Opium Monopoly Bureau, [and] . . . the establishment and work of the Capital Construction Bureau," was covered by a ¥30,000,000 Construction Loan floated in Japan during 1932.¹²

Manchoukuo's general budget for its second fiscal year (July 1933 to June 1934) amounted to M¥149,169,000.¹³ It was supplemented several times, however, and included a M¥7,000,000 Japanese loan carried over from the previous year. Manchoukuo has not yet reported its actual receipts and disbursements for the full fiscal year 1933-1934. For the first half year, however, it reported that receipts had amounted to 46 per cent of the anticipated expenditures for the year.¹⁴ The 1934-1935 general budget aggregates M¥188,725,058 and is fully balanced save for a M¥5,000,000 highway construction loan. In addition to the above, Manchoukuo anticipates revenues amounting to M¥136,434,133 and expenditures to M¥126,956,705 on its "special accounts" budget.¹⁵

During 1932-1933 Manchoukuo's principal sources of revenue were from customs duties, salt taxes, loans, and income from government industries and monopolies. During the same period, the principal expenditures were for defense, government finance, a treasury reserve, and allowances to the provincial governments.¹⁶

Manchoukuo claims that it expended only M¥33,000,000, or about 30 per cent of its total expenditures, on its Military during 1932-1933. This compares with 81,721,000 yuan, or 80 per cent of the total expenditures, allegedly consumed by the Military in Manchuria during the last year of Chang Hsueh-liang's administration.¹⁷ The allotment for military expenditures during the second year, however, was considerably higher than for the first—M¥41,967,000 against M¥33,000,000. And for the present fiscal year, it aggregates M¥58,272,000, exclusive of "special accounts" appropriations of M¥7,397,189 for an "Army Clothing Factory" and M¥7,000,000 for an "Arsenal."¹⁸ The increased 1934-1935 military appropriations, according to official claims, are due primarily to the increase in soldiers' pay and to the M¥9,000,000 contribution which

Manchoukuo will henceforth make annually toward the maintenance of Japanese troops.

If Manchoukuo's financial statements are accepted at face value, it would appear that the state's financial position at present is tolerably sound. This does not imply that Manchoukuo is self-sustaining or that it will not remain a financial burden on Japan for at least some time to come. Thus far Japan has largely financed Manchoukuo's development, provided occasional budget-balancing loans and taxed its own peoples for the support of the military organization necessary to retain hold of the region. On this basis—if it continues—Manchoukuo should be able to forge ahead economically and balance its budget. Manchoukuo is aware of its fiscal problems, however, and is seeking to overcome them. The Military continues to absorb a very large fraction of the country's revenues, while education and social enterprise represent a very small fraction.^{18a} The Manchoukuo authorities are attempting to distribute tax burdens more equitably. At present, the burdens rest too heavily on persons least able to bear them. The tax on salt, for example, is exceedingly high, and accounts for 13 to 15 per cent of Manchoukuo's "ordinary" revenues.¹⁹ In attempting to change the system, however, Manchoukuo cannot rapidly alter long established fiscal practices.

ECONOMIC CONSTRUCTION PROGRAM

When the establishment of Manchoukuo was first announced, the young officers in the Kwantung Army, and the fascist politicians in Japan envisaged a state freed from the grip of the capitalists. Their expectation was that Japan would turn over the South Manchuria Railway Company and all Japanese government rights in the leased areas to the new state; and that the new state would then be turned over to the control of the Kwantung Army. In February 1934, however, Foreign Minister Hirota made it clear that the Japanese government had no intention of abandoning the South Manchuria Railway Company either to Manchoukuo or to the Kwantung Army.²⁰ Nevertheless, proponents of various fascist and socialist plans for Manchoukuo admit only temporary defeat. The Army, it is contended, has not abandoned hopes of ultimately coming into full control of the South Manchuria Railway Company, though for the present it deems it politic to avoid any outward assaults on the capitalists. The cap-

11. "The Financial Status of Manchoukuo," *Dai Nippon*, cited, p. 68-69. The Manchoukuo yuan is worth approximately 32 cents at the present time. Cf. p. 174.

12. *M.I.B.*, No. 46, March 27, 1933.

13. *Ibid.*, No. 110, January 13, 1934.

14. *Ibid.*, No. 9, March 15, 1934.

15. *M.I.B.*, No. 34, June 30, 1934. The "general" budget was supplemented on July 18 by M¥10,182,466 to provide for an "Investment Enterprise Loan," the receipts of which will be employed in effecting municipal improvements in Harbin and Hsinking. *M.I.B.*, No. 39, July 20, 1934.

16. *Ibid.*, No. 12, October 13, 1932.

17. *Dai Nippon*, cited, p. 69. (A Manchoukuo yuan may here be regarded as the approximate equivalent of a Chinese yuan.)

18. *M.I.B.*, No. 9, March 15, 1934; *ibid.*, No. 34, June 30, 1934.

18a. The budget for the current fiscal year, however, provides for Department of Education expenditures amounting to M¥6,114,268—compared with M¥931,102 for the preceding year.

19. Manchoukuo has announced its intention of lowering the taxes on salt so that the price will be 50 per cent lower in Manchoukuo than it now is in China. *M.I.B.*, No. 121, February 24, 1934.

20. *New York Times*, February 15, April 1, 1934; for a description of the changes which have occurred in the Japanese administrative system in Manchuria since the "September 18 [1931] Incident," cf. the *Manchuria Year Book* (Tokyo, Toa Keizai Chosakyoku, 1932), p. 63-64.

italists, in turn, have deemed it politic to make certain concessions to the opposition. A number of these concessions have been incorporated in Manchoukuo's elaborate "ten-year plan," promulgated on March 1, 1933.

Important excerpts from the plan are as follows:

"In order to avoid the baneful effects which capitalism when unbridled may exert, it is necessary, in constructing our national economy, to apply a certain amount of national control thereto The principle of the open door and equal opportunity will be observed Capital investments from various parts of the world will be invited In view of the close economic interdependence between Japan and this country, emphasis will be placed upon securing cooperation between the two nations Those enterprises which are important from the standpoint of national defense, or which are in the nature of public benefit will be conducted under official management by special companies. Industries not included within the above category will be left free to the management of private persons In the construction of railways, the primary object will be the development of the economic wealth of this country; and the safety of national defense and the maintenance of public peace will also be sought for Trunk lines will be state-owned and operated under a unified management Besides the harbors in our country, those in adjacent countries [Korea] will be effectively utilized in order to accelerate the economic development of Manchoukuo Necessary improvement will be made on the harbors of Yinkow and Antung. The harbor works at Hulutao will be completed as the demands of economic necessity become pressing in the future" ²¹

In conformity with this economic program, Manchoukuo has embarked, or made definite preparations for embarking, on a number of important enterprises jointly with Japan. These include the Manchoukuo Petroleum Company, the Manchuria Coal Mining Company (for exploiting all the coal mines in Manchuria other than those at Fushun), the Japan-Manchoukuo Magnesium Company, the Manchurian Chemical Company, the Manchuria Electric Company, the Manchuria Gold Mining Company, an alcohol company, a forestry company, the Manchuria Telegraph and Telephone Company, a gold mining company, and a company to finance the production of cotton. ²²

In reviewing its economic accomplishments during the first two-year period, Manchoukuo announced on March 1, 1934 that "the present economic rapprochement or cooperation between this country and the Empire of Japan represents only an aspect of the general world 'bloc' tendency; an expansion of the Manchoukuo-Japan economic bloc into one which will embrace all the countries of the Orient should be interpreted as a matter of predestination." ²³

Practically all of the outside capital and

direction which Manchoukuo is employing in carrying out its enormous construction program are being provided by the Japanese. Japan's policy, apparently, is to shape an economy in Manchuria that will first of all meet Japan's military requirements and, secondarily, supplement Japan's economic needs. This aim involves certain difficulties, especially if strategic rather than economic considerations are allowed to predominate. Moreover, powerful vested interests in Japan, which would be jeopardized by an effective Japan-Manchoukuo economic bloc, have thus far prevented one from actually being consummated. ²⁴

MANCHURIAN CURRENCIES

The currencies which the new state inherited from the former régime were exceedingly varied, and were issued by a large number of banks and private non-banking institutions. Manchoukuo has already effected a considerable measure of monetary reform and contemplates more in the near future.

Virtually all the Chinese currency in Manchuria prior to September 1931 consisted of paper notes, comparatively few of which were convertible into hard coin. And only a small amount of coin was in circulation. Private notes were issued by several score small banks, exchange shops, bean and grain mills, *kaoliang* distilleries and the like. These notes were irredeemable and enjoyed only restricted, local circulation. The notes issued by the provincial and certain semi-official banks circulated much more widely. None, however, circulated throughout the "Three Eastern Provinces." ²⁵ Incidentally, there was no important variety of former Manchurian money that was "worthless" as has frequently been charged. Much of it, however, was enormously depreciated. The *Fengpiao*, for example, was worth only 2 per cent of its face value. But since it was stabilized at this value in July 1929 and not manipulated thereafter by the Chinese authorities, it was one of the best currencies in Manchuria when the Japanese seized the territory on September 18, 1931. Manchuria suffered not so much from employing depreciated currencies as from employing depreciating and fluctuating currencies.

Central Bank of Manchou

One of the first acts of the Japanese Army after seizing Manchuria was to take over the principal Chinese banks of issue. This was done in "self-defense," ostensibly for the purpose of preventing the "enemy" from receiving financial support. The three pro-

21. *M.I.B.*, No. 37, March 1, 1933.

22. "Political and Economic Reconstruction of Manchoukuo," *Dai Nippon*, cited, p. 53; *M.I.B.*, No. 8, March 1, 1934; No. 13, April 14, 1934; and No. 19, March 14, 1934.

23. *M.I.B.*, No. 8, March 1, 1934.

24. For a discussion of Manchuria's resources, cf. J. E. Orchard, *Japan's Economic Position* (New York, McGraw-Hill, 1930); also B. Dorfman, "Japan's Population Problem: Are Manchuria's Resources and Market the Solution?" *Asia*, February 1934.

25. For a detailed discussion of Manchurian currencies, cf. *Study No. 5, Supplement to Lytton Report*; also B. Dorfman, "Manchurian Currencies," *Asia*, May 1934.

vincial banks, and a private bank controlled by Chang Hsueh-liang (The Frontier Bank) were later amalgamated to form the Central Bank of Manchou, established on June 15, 1932. The new bank announced that most of the former Chinese paper moneys would be exchangeable for the new national currency at certain officially determined rates. Moreover, all of the older moneys were permitted to circulate until July 1, 1934, when they were to become legally worthless. The redemption—but not circulation—date has since been advanced to July 1, 1935.²⁶

The new Manchurian unit of currency is the Manchoukuo yuan, or M¥. It is also known as Kuo-pi (Go-bi), or the Kuo-pi dollar. Theoretically it contains 23.91 grams of pure silver, which is the approximate silver content of the Chinese Yuan Shih-kai or Sun Yat-sen dollar.²⁷ At present it bears no legal or fixed relation to any Japanese currency. No Manchoukuo yuan coins are minted and the only unlimited legal tender are the new Manchoukuo paper notes.

Manchoukuo banknotes circulate side by side with the Chinese silver dollars, but usually at a small premium or discount. Although the Chinese silver dollars are not legal tender, they are generally held in higher esteem by the Chinese than are the Manchoukuo paper notes.

At present, Manchoukuo may be said to have a "managed currency" which is being managed so as to give the Manchoukuo yuan approximately the same internal and external value as the Chinese silver dollar. This has been accomplished with fair success thus far by imposing certain restrictions on the purchase and sale of Shanghai exchange, Japanese currencies and local silver bullion and coins. From July 1932 to May 1934 inclusive, the average monthly Manchoukuo yuan quotation against C.\$100 Shanghai exchange fluctuated between M¥95.72 and M¥100.70. For only three months of this period (November and December 1932, and December 1933) did it rise to a less-than-one-per-cent premium; during the remainder of the time, it was at a discount ranging between one and four per cent.²⁸

Manchoukuo's frequent assertion that its currency "from the outset" has been backed by "at least fifty per cent gold and silver" is not borne out by the Central Bank's somewhat ambiguous balance sheets. Apparently the claim rests on the fact that the bank reckons inconvertible "gold" yen and other foreign currencies, and "deposits [the nature and location of which are not revealed] in foreign banks" as if they were actually "gold and silver."

26. *M.I.B.*, No. 25, July 12, 1934.

27. On March 1, 1933 China commenced striking new dollar pieces at its Shanghai mint with a pure silver content of 23.49 grams. Theoretically, this should enhance the value of the Manchoukuo yuan in terms of the Chinese dollar.

28. *M.I.B.*, No. 24, June 6, 1934.

Manchoukuo claims that by June 30, 1934 it had withdrawn 93.1 per cent of the former Chinese notes.²⁹ Withdrawal has not been uniform with respect to varieties, however.

If Manchuria had been plagued only with Chinese currencies, monetary matters would have been confusing enough. In addition, it employed Japanese "gold" and "silver" yen, and the Russian ruble (not actually as a currency, but as a money of account on the Chinese Eastern Railway). The use of these three foreign moneys, which often fluctuated enormously with respect to one another and the Chinese currencies, served to aggravate and precipitate many Chinese-Japanese-Russian issues. The Japanese seizure of Manchuria had a direct bearing on only the Chinese currencies; the others continue to be employed essentially as before. As long as the region makes such important use of four "foreign" currencies in addition to its own, there are certain to be difficulties.³⁰ The Russian ruble (as a money of account) will doubtless be discarded with the purchase, seizure or full control of the Chinese Eastern Railway. The Japanese "silver yen" may go, when and if the new Manchoukuo currency becomes more dependable, and if it remains linked to silver—which latter is not probable. The Japanese "gold yen," possibly issued by other than the Bank of Chosen, however, will certainly remain an important factor in Manchoukuo economy for some time to come. And what is quite likely is that the present Manchoukuo "silver yuan" will be converted into a "gold yen" in the not distant future. It will be extremely difficult, however, to oust the Chinese silver dollar. The Chinese populace much prefers full weight silver coins, and notes convertible into them, to either the present Manchoukuo yuan notes or the "gold yen" currency they are likely to have forced on them. As between the latter two, however, the Chinese would prefer the present Manchoukuo yuan so long as it is kept pegged close to parity with the Chinese silver dollar.

TRANSPORTATION AND COMMUNICATIONS

It is doubtful that there is any other country in the world where railway construction work is proceeding as rapidly as in Manchoukuo. Moreover, no other development in the new state is being watched with as keen an interest by the outside world, particularly the Soviet Union.

On March 1, 1933 Manchoukuo entered into an agreement with the Japanese government-controlled South Manchuria Railway

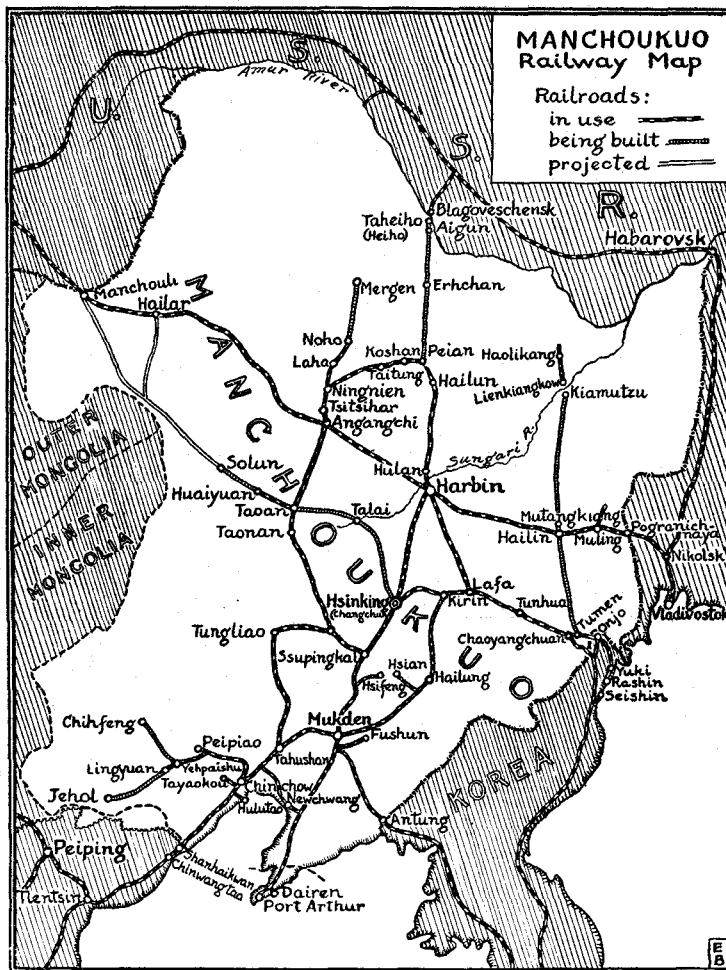
29. *Ibid.*, No. 37, July 16, 1934.

30. When Manchoukuo became "independent," the Chinese dollar became the fourth important variety of foreign money.

Since Manchoukuo currency is not permitted to circulate in the Kwantung Leased Territory, wherein is located the principal Manchurian port, Manchoukuo does not accept its own currency in payment of customs duties at Dairen. Instead it collects payment in Japanese "silver yen" and "gold yen" notes. *Manchuria Daily News, Monthly Supplement*, July 1, 1934.

Company to administer and operate all the Manchoukuo-owned railroads.³¹ This was done ostensibly for the purposes of unifying the existing lines; promoting their economic and technical efficiency; partly reimbursing the South Manchuria Railway Company for outlays previously made on behalf of Manchurian railways; and "providing for the cooperation of the two nations [Manchoukuo and Japan] in the matter of defense."³² The contract *inter alia* provided that the aggregate amount of Manchoukuo's obligations to the South Manchuria Railway Company "relative to railroads already opened to traffic" should be reckoned at gold ¥130,000,000.³³ The contract further stipulated that the South Manchuria Railway Company should be paid gold ¥100,000,000 for building the Tunhua-Tumen, the Lafa-Harbin and the Taitung-Hailun railways, work on which had already been in progress for some time.³⁴ These three lines are now in operation, and are among the most important in all Manchuria.

The most significant of the new lines from both the economic and strategic points of view is the Tunhua-Tumen Railroad,³⁵ the completion of which had been blocked by both Chang Tso-lin and Chang-Hsueh-liang since the original Sino-Japanese loan agreement of 1918. This is the last link in the railway which now offers the Japanese an additional rail approach from north Korea to the new capital of Manchuria. The completed line likewise permits them to divert traffic from the Chinese Eastern Railway



and Vladivostok, and to shorten the time in which cargo may be transported between north Manchuria and Japan.

At present the only available north Korean ports are Seishin and Yuki, whose combined capacity is only about 1,200,000 tons of cargo per year. The Japanese are concentrating their efforts toward developing Rashin as the premier north Korean port. Construction work on the port, as well as the railroad to it from Yuki, is proceeding rapidly under the auspices of the South Manchuria Railway Company.³⁶

The Lafa-Harbin line is also of great importance. It permits the Japanese to tap Harbin and the fertile region to the north and west without being compelled to pay the high "gold ruble" tariff of the Chinese Eastern Railway.³⁷ It also enables them to divert additional traffic from the eastern section of the Chinese Eastern Railway. The Lafa-Harbin route reduces the distance from Har-

31. In order to shoulder its tremendous burden in fostering the development of Manchoukuo railroads and other enterprises, the South Manchuria Railway Company was obliged to increase its capitalization on August 10, 1933 from ("gold") ¥440,000,000 to ¥800,000,000. The new stock was quickly subscribed, but is not yet fully paid up. The Company also appropriated ¥43,350,000 (but spent only ¥23,170,000) out of its 1933-1934 earnings to provide for the improvement and extension of its own properties. The Company's profits from its railway operations during 1933-1934, incidentally, amounted to ¥81,600,000, an increase of ¥11,160,000 over the preceding fiscal year (April 1, 1932 to March 31, 1933). During the present fiscal year the Company plans to raise ¥150,000,000 by issuing debentures and another ¥50,000,000 by calling on its shareholders for additional payments on their stock subscriptions. The entire ¥200,000,000 is to be used to finance Manchurian development. A 4½ per cent, 15 year, ¥30,000,000 loan has already been underwritten in Japan. (*Manchuria Daily News, Monthly Supplement, July 1, 1934*.)

32. *M.I.B.*, No. 38, March 1, 1933.

33. The reference was to the following lines: Kirin-Changchun, Kirin-Tunhua, Kirin-Hailun, Ssipingkai-Taonan, Taonan-Angangchi, Taonan-Solun, Tsitsihar-Koshan, Hulan-Hailun (including a portion of the water transport enterprise on the Sungari river), Mukden-Hailun, and Mukden-Shanhaikwan (including the Tahushan-Tungliao line and its subsidiary harbors.) *Ibid.*

It should be pointed out that the South Manchuria Railway Company now operates on behalf of Manchoukuo a number of confiscated railroads that were built by the former Chinese authorities without any financial assistance from the Japanese; i.e., the Mukden-Hailun, Kirin-Hailun, Hulan-Hailun, Tsitsihar-Koshan, Taonan-Huaiyuan and Mukden-Shanhaikwan lines.

34. *M.I.B.*, No. 23, December 17, 1932. Since January 1934 the Taitung-Hailun line has been administratively split into two sections which have respectively become parts of the Harbin-Peian and Tsitsihar-Peian lines.

35. In January 1934 this became part of the Hsinking-Tumen line.

36. *New York Times*, March 25, 1934.

37. It costs as much to transport a case of kerosene, for example, from Hsinking to Harbin as it does to transport it from America to Hsinking.

bin to the sea by almost 130 miles, and does not necessitate the delays and expenses that were formerly involved in trans-shipping goods at Hsinking (Changchun) from the broad-gauge Chinese Eastern freight cars to the standard gauge South Manchuria cars.³⁸

The Koshan-Hailun line connects the Tsitsihar-Koshan and Hulan-Hailun lines, forming a 375 mile "crescent" between Harbin and Tsitsihar. Extending northward from Ningnien, a point on the western portion of the crescent, is a branch line routed through Laha to Mergen. It is already completed as far as Noho. Construction beyond Mergen to the Amur River may proceed at a future date. From Peian, a point near the center of the crescent, another line is being pushed northward a distance of some 190 miles toward Taheiho, which is opposite Blagoveschensk on the Soviet frontier. The line is constructed almost to Erhchan, and when completed will be one of the most strategically important lines in the state.

The above mentioned lines serve the richest soya-bean producing areas in Manchuria, and to the north of them lies the region where Manchoukuo hopes to expand its wheat production enormously. Cargo can now be forwarded to the Manchoukuo and Japanese lines from points as far west as Tsitsihar without employing Chinese Eastern Railway facilities.

Another line tapping Chinese Eastern territory, and feeding the north Korean ports will also be completed soon. It will extend from Tumen, on the Tunhua-Tumen line, to Mutankiang, a point on the Chinese Eastern Railway where it crosses the Mutan River about fifteen miles east of Hailin.

In addition to the railroads which have already been mentioned, seven others are now under construction.³⁹ Manchoukuo let the contracts for these to the South Manchuria Railway Company on March 20, 1934.

It cannot be said that the new Manchoukuo lines which are completed or are under construction are primarily strategic. A few of them doubtless are, but for the most part those lines which are of the greatest strategic value are likewise of the greatest economic importance. Moreover, certain of the lines also serve political considerations. In time of war all of the Manchoukuo lines would serve military ends directly or indirectly. There is no railroad, incidentally, which Japan has recently constructed or is at present constructing which was not originally planned on the same, or a slightly variant route, by former Chinese régimes in

Manchuria. Whether Japan or Manchoukuo can afford to embark on such an extensive railroad program purely on a basis of its economic soundness, however, is open to question. The funds are being provided at a considerable sacrifice, and for the present Japan must bear the brunt of the burden. Were it not for the military importance of the roads, it is doubtful that Japan would have embarked on their construction on the present scale. Whether Japan is charging Manchoukuo a "fair price" for the roads, and whether it will ever be able to collect the accounts are questions which cannot be discussed here.

Railway Negotiations with Russia and China

Soviet-Manchoukuo negotiations over the sale of the Chinese Eastern Railway have again reached a deadlock. When the parley was opened in Tokyo during June of last year — with Japan acting as "mediator" — the Soviet Union offered to sell the line for 250 million ("gold") rubles, and Manchoukuo offered to pay 50 million ("gold") yen. The bargaining, although marked by repeated interruptions, continued until a month or so ago, when the spread between the bid and asked prices narrowed to only 40 million yen.⁴⁰

Negotiations over the sale of the railway have been attended by a cyclically recurring wave of Soviet-Japanese tension, which at this time again appears to be receding. Manchoukuo's construction of railroads which are more and more encircling and paralleling the Soviet-owned line has served steadily to diminish the latter's economic value. Soviet officials of the railroad, moreover, charge that the police and military authorities in Manchoukuo have taken no effective measures to prevent "bandits" from damaging the railroad and attacking its employees.⁴¹ The recent arrests of numerous Soviet railroad officials by the Manchoukuo authorities on charges of promoting disorder, however, have now become the chief bases for Soviet complaints and official protests.⁴² The Soviet press charges that Japan has been employing all of the above-mentioned means

40. Manchoukuo's last bid, made on July 23, 1934, amounted to 150 million yen, inclusive of a 30 million yen allowance for compensating the Soviet employees of the line. Russia's last offer, made on July 30, aggregated 190 million yen inclusive of the 30 million yen employees' retirement allowance. Conversations over the sale of the railroad were terminated on August 13. *New York Times*, August 26, 1934.

41. In a report to the Soviet-Manchoukuo board of directors of the Chinese Eastern Railway, Mr. Rudi, the Soviet general manager, stated that between January 1 and August 6 of this year there were: 16 trains wrecked by "planned damage" to the tracks; 91 armed raids on railway stations and barracks; 116 employees arrested or captured; 9 bridges damaged; 45 murders, including 9 of railway agents; 102 persons injured, including 83 railway agents; 42 robberies of railway employees; 22 arsons of railway property; 21 locomotives and 207 coaches damaged; and physical losses amounting to 300,000 "gold" rubles (approximately \$261,000) in addition to revenue and other losses amounting to many thousands more rubles. *New York Herald Tribune*, August 12, 1934; also *New York Times*, August 12, 1934.

42. Seventy-two arrests were made between August 13 (when Manchoukuo began making arrests) and August 26. *New York Times*, August 26, 1934.

38. *New York Times*, May 13, 1934. The Russian broad-gauge is 5 feet, and the standard gauge is 4 feet, 8½ inches.

39. These new lines will connect the following points: Mutankiang and Kiamutzu; Erhchan and Taheiho (or Heiho); Lingyuan and Jehol City; Yepaishu and Chihfeng; Hsinking and Talai; Talai and Taonan; and Haiyuan and Solun. (Based on information received from the Dairen and New York offices of the South Manchuria Railway Company.)

to compel the U.S.S.R. to sell the railroad on Japan's terms, failing which Japan (or Manchoukuo) will probably seize the line. Japan, on the other hand, contends that the Soviet Union has been asking an excessive price for the property. As for the attacks on the railroad, the Foreign Office spokesman at Tokyo disclaims all Japanese responsibility. He has recently accused the Third International, as well as Soviet citizens in Manchoukuo, of fomenting both the attacks and other intrigues.^{42a} Japan refuses to answer for Manchoukuo's arrests of Soviet railway employees on the score that Manchoukuo, being an independent state, can answer for itself.

It is yet too early to ascertain in what manner the Soviet Union, Manchoukuo and Japan will settle their differences. At this writing, however, there appears to be less concern over the terms of sale of the Chinese Eastern Railway than over the liquidation of the newly created political issues.

Manchoukuo has fared more successfully in its railway negotiations with China than with Russia. Through traffic over the Peiping-Liaoning (Peking-Mukden) Railway was halted shortly after the outbreak of Sino-Japanese hostilities in 1931. The Chinese government continued to operate the Peiping-Shanhaikwan section of the line and Manchoukuo, later, operated the Shanhaikwan-Mukden section. The Japanese subsequently brought pressure to bear on Nanking to restore through traffic. As a face-saving measure, the Chinese government arranged to have the management of the through trains using the Chinese section of the line placed in the hands of a private company. The Chinese government, as such, therefore, is not a party to the operating agreement. For the first time in almost three years, through trains commenced running on July 1, 1934 under the auspices of the Oriental Travel Company, a private Sino-Japanese corporation.⁴³ The first Manchoukuo-bound train, incidentally, was bombed just after it departed from Tientsin.

Postal Service

Shortly after the seizure of Manchuria, post offices in China refused to accept mail from Manchuria, or to forward mail to or through it. Mail service was continued between China and the Japanese-leased Kwantung Territory, however, and Dairen was used by many as a forwarding point.

One of the important pending Sino-Japanese issues relates to the resumption of regular mail service between China and Manchoukuo. This is an issue which has an international bearing as well. On May 15, 1934 the "United Kingdom" brought the problem of "transit payments in respect of

international mails sent through Manchuria" before the Advisory Committee appointed by the Extraordinary Assembly of the League. The Committee decided that the "Manchoukuo Department of Communications" cannot appeal to the provisions of the Universal Postal Convention," but that the postal administrations of League members could deal with the postal administration of Manchoukuo without this bearing on "recognition."⁴⁴

Postal communications between Manchoukuo and most other countries, excepting China, are now fairly well established.

TRADE AND ISSUES RELATING THERETO

Manchuria's foreign trade during the past three years has undergone several important changes, the most conspicuous being the marked decline in export values, the decline in import values during 1932 and the marked rise during 1933, and the change from a "favorable" to an "unfavorable" balance.

FOREIGN TRADE OF MANCHURIA 1931-1933 (in thousands of Manchoukuo yuan)

	1931 ⁴⁵	1932 ⁴⁶	1933 ⁴⁷
Imports	341,560	301,068	514,540
Exports	739,235	616,152	423,327
Totals	1,080,795	917,220	937,867
Balance	+397,675	+315,084	-91,213

Export values declined during the period under review chiefly because of the floods and disorder in Manchuria, the poor markets for soya beans abroad—particularly in Germany, the drop in the price of important Manchurian exports, and the Chinese restrictions on imports from Manchuria. Actual import values probably did not decline in 1932 to the extent that the above figures indicate, since smuggling operations diminished considerably during this year. The large increase of imports during 1933 was due to the unusual demand for foreign flour (floods and banditry seriously curtailed Manchurian wheat production), the exceptionally low price of Japanese merchandise and, more particularly, the enormous capital investments Japan was making in Manchuria during this period. These factors resulted in giving Manchuria an "unfavorable" balance of trade for the first time in fourteen years.

Manchoukuo's trade by principal countries for 1932 and 1933 was as follows:

FOREIGN TRADE OF MANCHOUKUO 1932-1933⁴⁸ (in thousands of Manchoukuo yuan)

	1932		1933	
Countries	Exports	Imports	Exports	Imports
Japanese Empire ..	232,055	175,333	203,022	338,012
China	169,967	54,968	55,210	79,812
Germany	73,946	5,769	66,356	10,455
British..				
Empire ..	18,512	33,596	16,087	29,849
U.S.S.R.	33,785	6,825	12,918	7,569
U.S.A.	5,009	17,747	7,414	28,996
All other countries	82,878	6,830	62,320	19,847
Totals	616,152	301,068	423,327	514,540

^{42a.} Ibid., August 28, 1934.

^{43.} Manchuria Daily News, Monthly Supplement, July 1, 1934.

As is entirely reasonable to expect, Manchoukuo's chief customer and supplier is Japan. During 1933 Japan (inclusive of Korea) bought over 48 per cent of Manchuria's total exports and supplied over 66 per cent of its total imports.⁴⁹ The legitimate trade advantages which the Japanese enjoy in the Manchurian market are so numerous that other foreigners can hardly hope to compete with them save in a comparatively few lines.

Until July 22, 1933 Manchoukuo retained essentially the same tariff schedules as prevailed under the old régime. On July 22, 1933, however, Manchoukuo revised a number of important merchandise classifications and rate schedules.⁵⁰ In the near future it plans to overhaul completely its entire tariff structure. The alterations, no doubt, will depend somewhat on the treatment China will accord imports from Japan and Manchoukuo, and the foreign goods which are trans-shipped through China's ports to and from Manchoukuo.⁵¹ China has been imposing certain penalty restrictions on imports from Manchoukuo, and has been compelling the payment of what amounts to "double duties" on all foreign goods trans-shipped to Manchuria through China.

"Open Door"

European and American firms handling merchandise or rendering services which are competitive with the Japanese in Manchuria have either abandoned the field or suffered losses.⁵² The British, Canadian and American governments have closed their commercial offices in Manchuria.⁵³ Those firms handling oil, automobiles, etc.—i.e., merchandise which finds little Japanese competition—have expanded their sales somewhat.⁵⁴ The Japanese and Soviet oil distributors, however, have periodically made heavy inroads in the British and American oil sales. The British American Tobacco Company, for the present, has expanded its

Manchurian operations as a result of obtaining a concession from the Manchoukuo government.⁵⁵ European and American banks have lost some of their business, due both to Japanese competition and to the low price and small exports of soya-bean products. Recent Manchoukuo legislation has also affected them adversely.⁵⁶ Foreign firms which lost large amounts of money as a result of the Japanese seizure of Manchuria have received only a small compensation from the Manchoukuo government.⁵⁷

Frequent charges of discrimination and violations of the "Open Door" principle have been levelled against the Japanese by foreign firms.⁵⁸ It is usually not possible, however, to learn how well founded these charges are. British and American oil companies, for example, charge that Manchoukuo discriminates against them in favor of Japanese companies by permitting the latter to enter their products under classifications which pay much lower customs rates.⁵⁹ The bulk of the charges of discrimination, however, do not seem to rest on as good grounds as this one.

No non-Japanese foreign capital of any consequence has been invested in Manchoukuo since September 1931. The much publicized French (D'Olivier) investment was originally reported at 1,000,000,000 francs.⁶⁰ Later, however, the actual investment was given at gold ¥100,000.⁶¹

Closely related to the Open Door issue is the recognition problem. Manchoukuo has repeatedly expressed the hope that other world powers will "follow the example of Japan."⁶² In making a bid for recognition it has more than once hinted that it might grant concessions to those countries which so favor it. Manchoukuo is in a position to discriminate against the nationals of non-recognizing countries who have interests within its borders. But the positive concessions which it can offer are slight. Thus far, the only important power which has recognized Manchoukuo is the one which created it.⁶³

44. League of Nations, Information Section, *Bulletin* No. 6933, May 15, 1934.

45. *M.I.B.*, No. 95, October 10, 1933. The values given for 1931 are only approximate. The original returns are expressed in terms of the now obsolete Haikwan tael. The conversion factor employed was one Haikwan tael equals MF1.56, which is the approximate ratio at which Manchoukuo converted the above 1932 figures, also compiled originally in terms of Haikwan taels.

46. *Ibid.*, No. 123, February 28, 1934.

47. *Ibid.*

48. *Ibid.*

49. *Ibid.*

50. *M.I.B.*, No. 77, July 22, 1933.

51. According to recent dispatches, China's new tariff schedules which went into effect on July 2, 1934 greatly favor imports from Japan. *New York Herald Tribune*, July 6, 1934; *New York Times* July 7, 1934.

52. *New York Herald Tribune*, May 5, 1933; *New York Times*, May 8, 1933; Shen Hsue-Chuan, "Japanese Maintain 'Open Door' in Manchuria for Foreigners to Get Out," *China Weekly Review*, December 2, 1933. Cf. Owen Lattimore, "Open Door or Great Wall," *Atlantic*, July 1934.

53. This action was no doubt prompted in part by considerations of economy.

54. According to press dispatches, Manchoukuo plans to establish governmental control over the sales of petroleum products. *New York Times*, August 11, 1934.

55. *China Weekly Review*, December 30, 1933.

56. *M.I.B.*, No. 104, December 4, 1933.

57. Shortly after coming into existence, Manchoukuo announced that it would settle outstanding foreign and domestic claims held against the former régime. The claims numbered over 1,100 and aggregated about MF12,000,000. These have already been settled for a somewhat lesser amount. The bulk of the payments, however, have been in the form of 3 per cent, 20-year bonds reckoned at their face value. Of the total cash payments amounting to MF2,824,794, Manchoukuo and Japanese creditors participated to the extent of MF1,975,473. (Computed on a basis of information obtained from *M.I.B.*, Nos. 22, 78, and 97, dated respectively, December 13, 1932, July 27, 1933, and October 28, 1933.)

58. *New York Herald Tribune*, May 5, 1933; *New York Times*, May 24, October 8, 1933.

59. *New York Times*, October 8, 1933.

60. *Ibid.*, July 30, October 17, 1933.

61. Frederick V. Field, *Economic Handbook of the Pacific Area* (New York, Doubleday Doran, 1934), p. 365. For details on anticipated French investments, cf. *Manchuria Daily News*, *Monthly Supplement*, April 1, 1934.

62. *New York Times*, April 26, 1933.

BANDITRY & OPIUM

Both Manchoukuo and Japan have been obliged to spend considerable energy and money in fighting Manchurian "bandits."⁶⁴ Disorder and lawlessness probably reached their all-time height in Manchuria during and following the Sungari flood of 1932.⁶⁵ Murders, kidnappings and daylight robberies were daily occurrences in Harbin and other north Manchurian centers. The countryside away from the larger cities, however, suffered more severe depredations. Rail communications, even on the South Manchuria Railway lines, were frequently disrupted, and night trains were taken out of service in some instances. Night schedules between Hsinking and Harbin were resumed only several months ago.⁶⁶ Japan and Manchoukuo have consistently attempted to minimize the extent of the disorder in Manchuria.⁶⁷ The Chinese, on the other hand, have usually overstated it. The fact is that Japan has had to undertake several thousand punitive expeditions against bandits since seizing Manchuria in 1931.⁶⁸

Peace and order were restored in considerable measure during 1933 and the first half of 1934. Since then, however, due to the confusion resulting from floods and the protection offered by the high *kaoliang*, banditry has been revived on a large scale.⁶⁹ It is extremely doubtful that Manchuria today enjoys as great a measure of peace and order as prevailed immediately prior to September 18, 1931.

At present Manchoukuo claims that it has an army of over 120,000 men. These are garrisoned throughout the state to enable them to put down disturbances in a minimum of time. Japanese troops also are stationed at a large number of points so that they may cooperate with—and keep watch over (?) —the Manchoukuo troops.⁷⁰ The

Japanese claim that only 35,000 Japanese soldiers are now stationed in Manchuria. This figure, however, is not generally accepted by competent foreign observers.

Population Changes

Large numbers of Koreans returned to their homeland during the disorders which followed the seizure of Manchuria. Although many have since returned, the Korean population of Manchuria numbered only 595,000 at the end of 1932, or 35,000 fewer than were residing there in 1931.⁷¹

Many Chinese departed from Manchuria following the "Incident." They are again beginning to return to Manchuria. During 1933, 323,062 entered Dairen—which is by far the most important point of entry. This exceeded the number who departed by 95,191. During the first four months of 1934, 210,813 entered and 77,856 departed from Dairen, a difference of 132,957. (During the corresponding months of 1933, 151,945 entered and 121,216 departed, a difference of 30,729.⁷²)

The Japanese population of Manchuria (exclusive of the Kwantung Leased Territory) increased from 113,550 at the end of 1931 to 150,162 by the end of March 1933.⁷³ The additional numbers consist chiefly of advisers, officials, engineers, architects, skilled workers and merchants. Practically none are permanent agricultural settlers. The two "armed immigrant" contingents of 500 each were failures. Much greater subsidies were required than was anticipated.

Japanese farmers have far too high a standard of living relative to their technical efficiency to permit them to compete economically with the Chinese. The Japanese are fully aware of this, but a number are nevertheless continuing to project colonization schemes. According to recent press accounts, Manchoukuo and the South Manchuria Railway Company have jointly organized a ¥20,000,000 "Joint Land Corporation" for the purpose of financing Japanese farmers to settle Manchuria.⁷⁴ Manchuria is clearly no solution to Japan's population problem in so far as a direct outlet for its numbers is concerned.⁷⁵

According to the last official census estimate, the population of Manchoukuo (exclusive of the Kwantung Leased Territory and the South Manchuria Railway "Zone") was placed at 30,879,717 as of the end of 1933. Japanese, Koreans, and all other foreigners made up 2.2 per cent of this number,

63. On May 19, 1934 El Salvador's Consul-General in Tokyo advised the Manchoukuo Legation that his government had accorded Manchoukuo *de jure* recognition as of March 3. (*M.I.B.*, No. 22, May 25, 1934.) The Consul-General is quoted in the press as declaring that his country's recognition was "purely a matter of business, the outgrowth of El Salvador's acute need of new markets for her coffee." (*New York Times*, May 23, 1934.) The Vatican also has recognized Manchoukuo.

64. For a description of the various types of Manchurian "bandits," cf. Dorfman, "Japan's Growing Population," cited.

65. Serious floods again visited north Manchuria during July of this year, causing heavy damages to crops, railroads and bridges. Bandits, including some White Russians, took advantage of the situation, it is reported, and began plundering and murdering in the villages. *New York Times*, July 11, 1934.

66. This service was temporarily discontinued again during the July 1934 floods in north Manchuria. *New York Times*, July 21, 1934.

67. For reproductions of headlines in English language newspapers in Japan proclaiming Manchurian bandit activities, cf. *China Weekly Review*, July 8, 15, 29, August 19, September 16, October 28, 1933.

68. *New York Times*, October 26, 1933.

69. According to a *New York Times* dispatch of August 3, 1934, "a semi-official source" in Manchoukuo reported that during June 1934 in Fengtien Province alone there were 3,700 bandit incidents, with 9,000 bandits participating. Nearly 2,000 of these cases involved kidnappings. Sixty-six soldiers and 200 civilians were reported killed, and bandit casualties were placed at 700.

70. Manchoukuo also maintains a number of patrols along its waterways for the purpose of exterminating river bandits.

71. From a private report from Manchuria dated May 23, 1934.

72. *Ibid.*

73. General Sadao Araki, "The Politico-Economic Effect of the Manchurian Incident," *Dai Nippon*, p. 34.

74. *New York Times*, July 1, 1934.

75. For a discussion of this point, cf. Dorfman, "Japan's Growing Population," cited.

and what Manchoukuo refers to as "Manchurians" (chiefly Chinese but including some 2,000,000 Mongols) made up the remainder.⁷⁶

Opium Production

The legalization and expansion of opium production, and the organization of an official opium monopoly in Manchuria have attracted widespread attention. The Opium Monopoly Bureau was established and placed under the control of the Ministry of Finance on November 3, 1932.⁷⁷ The cultivation of poppy and the sale of all varieties of opium and instruments for consuming it were placed under strict government control, and wholesale and retail dealers were placed under license.⁷⁸ Manchoukuo has legalized the cultivation of opium throughout Jehol Province and large sections of each of the other provinces with the exception of Heilungkiang. In all, Manchoukuo designated 177,750 acres where poppy could be cultivated during 1934.⁷⁹ Only about one-fifth of this area, however, has been planted, according to official Manchoukuo claims.⁸⁰

Opium production in Jehol, it should be pointed out, did not commence with the founding of Manchoukuo. It has existed there for many years. General Tang Yu-lin, the former Governor of the province, built a fortune out of trafficking in this drug.

CONCLUSION

Japan has seized and now dominates a large section of territory which the world—inclusive of Japan—formerly recognized as an integral part of China. No effective measures were taken by China or any other power to check Japan's actions. Japan then caused it to be established as an "independent" state. In the economic sphere, Japan has been attempting to fashion the new state's economy so that it will enhance Japan's military strength and complement its industrial requirements. According to many competent observers, however, Japan has greatly over-estimated the importance of Manchuria's resources and market.⁸¹ To carry out its economic program, moreover, Japan has been obliged to spend and invest enormous sums of money in Manchuria's railroads, industrial enterprises, etc. Much of the investment is no doubt justified on economic grounds, but a large fraction is not. Certain of the railroads and industries,

for example, primarily serve strategic rather than economic ends. It is doubtful that all of these latter can function except at a loss. The number of economically unsound enterprises which Japan can compel Manchoukuo to support is definitely limited. This is especially the case now that Manchoukuo has lost—probably permanently—a large share of its profitable export market for soya beans. Therefore, if Japan goes beyond certain limits in shaping Manchoukuo's economy along inherently unsound lines, Manchoukuo will remain a permanent burden on Japan. Precisely what these limits are is difficult to ascertain at present. Possibly Japan has already exceeded them. Many competent observers, moreover, entertain grave doubts that a country in Japan's present financial predicament can afford to invest such enormous amounts of money in enterprises which, even though economically sound, cannot pay for themselves for decades. Whether Japan has paid and is paying too high a price for the additional military security which control of Manchoukuo allegedly provides, however, is a question which Japan must answer for itself.

The present Manchoukuo administration undoubtedly is technically more efficient than its predecessor. Many of its reforms are commendable achievements. Whether the inhabitants of Manchoukuo as a whole are "better off" as a consequence defies answer. Economically the prospects of the masses are certainly no worse. But the legitimate opportunities of upper-strata Chinese who do not "cooperate" with the Japanese have been considerably lessened. Due allowance must also be made for the fact that few peoples have ever been grateful to a foreign government which has "delivered them" from their own rulers—almost irrespective of how bad they were—if it afterwards set up an administration of its own choosing. The Chinese are no exception. Moreover, even if those Chinese living in Manchoukuo and the several Chinese governments south of the Wall should reconcile themselves to the severance of Manchuria from "legal" China, large and increasing numbers of articulate Chinese south of the Wall and abroad are not likely to reconcile themselves to it permanently. September 18, 1931 for many years to come will be commemorated by the latter as a "humiliation" which must be avenged. And many Chinese south of the Wall and abroad will continue to regard financing bandit activities in Manchuria as a patriotic act. This can hardly provide an atmosphere conducive to cordial Sino-Japanese relations for the future. Even now the tension—although apparently lessening—is sufficiently high that any "incident," genuine or manufactured, may set off another conflagration in the Far East.

76. *M.I.B.*, No. 35, July 10, 1934.

77. *Ibid.*, No. 16, November 7, 1932.

78. *Ibid.*, No. 21, December 14, 1932.

79. *Ibid.*, Extra, May 21, 1934.

80. *Ibid.*

81. For a discussion of the implications of Japan's Manchurian venture, cf. Araki, "Politico-Economic Effect of Manchurian Incident," cited, p. 31-38. Cf. J. E. Orchard, "Prerequisites of Japanese Security," *Annals of the American Academy of Political and Social Sciences* (Philadelphia, July 1933); Orchard, "Economic Consequences of Japan's Asiatic Policy," *Foreign Affairs*, October 1933; Orchard, "The Japanese Dilemma," and H. Foster Bain, "Second El Dorado," *Empire in the East* (New York, Doubleday, Doran, 1934); and Dorfman, "Japan's Manchurian Blunder," *New Republic*, December 6, 1933.